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Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-01 H-01 INR-05 INT-05 L-02 LAB-01

NSAE-00 NSC-05 PA-01 RSC-01 AID-05 CIEP-01 SS-15

STR-01 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

SWF-01 GSA-01 OPIC-03 XMB-02 /083 W
---------- 008246
R 271845Z NOV 74
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 1212

LIMITED OFFICIAL USE SANTIAGO 7248

EO 11652: N/A
TAGS: ETRD, EIND, CI, ECIN, EMIN
SUBJECT: MINMINES TORO DISCUSSES PARIS CIPEC MEETING

REF: SANTIAGO 7125; STATE 255226

1. SUMMARY: MINMINES TORO CONFIRMED CHILE WILL REDUCE COPPER PRODUCTION BY 10 PERCENT (40,000 MT) OVER NEXT SIX MONTHS AND THAT REDUCTIONS UNDER CIPEC AGREEMENT MAY HAVE TO GO TO 16 PERCENT OR HIGHER TO EFFECT DESIRED PRICE RESPONSE. HE CLAIMED OTHER COUNTRIES ARE INTERESTED IN JOINING CIPEC AND WOULD IN ANY CASE PARTICIPATE IN REDUCTION OF EXPORTS. TORO DENIED THAT THIS CONSTITUTED CARTEL ACTION SINCE AIM IS ONLY TO EVEN OUT SUPPLY WITH DEMAND AND ACHIEVE "FAIR PRICE" BETWEEN 75 AND 77 CENTS PER POUND. EMBASSY INFORMED THAT RAPID PRICE RISE EXPERIENCED WITH CUTBACKS IN LATE FIFTIES PROBABLY WILL NOT BE ACHIEVED NOW DUE TO LARGE STOCK OVERHAND. END SUMMARY.

2. FOLLOWING RETURN FROM PARIS MINISTERIAL CIPEC MEETING CHILEAN MINMINES (GEN) AUGUSTIN TORO HELD PRESS CONFERENCE AT WHICH HE CONFIRMED CHILE WOULD BE REDUCING COPPER PRODUCTION
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BY 10 PERCENT (40,000 MT) OVER NEXT SIX MONTHS BEGINNING DECEMBER 1. HE BLAMED DECLINE IN THE PRICE OF COPPER ON STOCKS OF 500,000 MT IN CONSUMING COUNTRIES AND 160,000 MT ON THE LME. THIS OVERHANG, HE SAID, WILL NOT ONLY PRECLUDE

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RAPID RESPONSE TO THE CIPEC ACTION BUT MAY ALSO MEAN THAT
CIPEC COUNTRIES WILL HAVE TO REDUCE PRODUCTION TO LEVELS OF
16 PERCENT OR MORE TO RAISE PRICES OVER PRESENT 60-65 CENTS/LB
TO TARGET RANGE OF 75 - 77 CENTS/LB ("FAIR PRICE").

3. TORO STATED THAT EIGHT COUNTRIES, INCLUDING AUSTRALIA,
ALGERIA, CANADA, PHILIPPINES, MEXICO AND POLAND WERE INTERESTED
IN JOINING CIPEC. HE ADDED THAT ALMOST ALL PRODUCER COUNTRIES
HAVE EXPRESSED SUPPORT FOR CIPEC MOVE AND WILL JOIN IN 10
PERCENT REDUCTION. IMPORTANT COMPANIES, SUCH AS MITSUI OF
JAPAN, WERE ALSO ANNOUNCING PRODUCTION CUTBACKS.

4. TORO STATED THAT THE CUTBACK IN PRODUCTION WOULD RESULT
IN LOSS FOR CHILE OF BETWEEN 5.5 AND 6 MILLION DOLLARS, IF
THE ACTION HAS NO EFFECT ON PRICE. IF PRICES RECOVER, HOWEVER,
CHILE WILL GAIN 16 MILLION DOLLARS FOR EACH CENT INCREASE IN
YEARLY AVERAGE PRICE. ACCORDING TO TORO WORLD DEMAND FOR
COPPER IS INCREASING 4.3 TO 4.5 PERCENT PER YEAR. HE INSISTED
THAT CIPEC ACTION DOES NOT CONSTITUTE FORMATION OF PRODUCER
CARTEL, AS GOAL IS ONLY TO EVEN OUT SUPPLY AND DEMAND, AND
THAT THERE IS NO DESIRE TO FOLLOW EXAMPLE OF PETROLEUM
EXPORTERS. (TORO INDICATED THAT A "FAIR PRICE" FOR COPPER
WOULD BE BETWEEN 75 AND 77 CENTS PER POUND.)

5. TORO SAID THAT SUSPENSION OF OPERATIONS AT EXOTICA DID
NOT MEAN MINE WOULD BE CLOSED. DURING SHUT-DOWN NEW SYSTEM
FOR REDUCING OPERATING COST WILL BE DEVELOPED.

6. DURING RECENT VISIT IN SANTIAGO, EXECUTIVE VICE PRESIDENT
FRANK OF ENGLEHARD MINERALS AND METALS CORP. INFORMED AMBASSADOR
THAT LAST TIME COPPER INDUSTRY CUT BACK PRODUCTION (LATE
FIFITIES) PRICES WENT UP FAIRLY RAPIDLY. IN FRANK'S OPINION
RESPONSE WILL BE SLOWER NOW BECAUSE OF WORLD WIDE STOCK LEVELS
ARE NOW APPROACHING 800,000 MT. LOCAL TRADE SOURCE TOLD EMBOFF
HE IS PESSIMISTIC AS TO CIPEC'S ABILITY TO AFFECT PRICES
THROUGH PRODUCTION OR EXPORT CURTAILS. HE RECOLLECTION OF
THE PREVIOUS CUTBACK IS THAT EACH COUNTRY CONCOCTED WAY OF
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INTERPRETING ITS ACTIONS AS CONSTITUTING COMPLIANCE WITH
AGREEMENT, BUT TOOK LITTLE MEANINGFUL ACTION.

7. COMMENT: SHUT-DOUN OF EXOTICA WILL ACCOUNT FOR ABOUT
2,800 MT PER MONTH OR 16,800 MT OF CHILE'S 40,000 MT QUOTA
FOR REDUCTION OVER THE NEXT SIX MONTHS. TRADE SOURCE ESTIMATES
COST OF EXOTICA COPPER NOW AT LEAST 65 THAT IT IS BEING PRODUCED AT A LOSS.

8. TORO IS IN ERROR IN CLAIMING THAT REDUCTION IN OUTPUT
BY 40,000 MT WOULD RESULT IN LOSSES OF $5.5 TO $6 MILLION.
ASSUMING 60 CENT LME PRICE AND 10 CENT QUALITY DISCOUNT, 40,000
MT COPPER IS WORTH $44 MILLION FOB. AVERAGE LME PRICE WILL

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THEREFORE HAVE TO INCREASE BY 2.8 CENTS TO OFFSET LOSSES OF
REDUCED QUANTITY EXPORTED.
POPPER

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